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July 28, 2014

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Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

RE: Arizona Public Service Company's ("APS") Rejoinder Testimony in the Application to Approve Four Corners Rate Rider matter
Docket No. E-01345A-11-0224

Attached is APS's Rejoinder Testimony of Leland R. Snook and James C. Wilde in support of the above referenced matter.

If you have any questions regarding this information, please contact Jeffrey Johnson at (602)250-2661.

Sincerely,

Lisa Malagon

LM/sb
Attachment

cc: Parties of Record
Chairman Bob Stump
Commissioner Gary Pierce
Commissioner Brenda Burns
Commissioner Bob Burns
Commissioner Susan Bitter Smith
Lyn Farmer
Maureen Scott
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Arizona Corporation Commission
DOCKETED

JUL 28 2014

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REJOINDER TESTIMONY OF LELAND R. SNOOK

On Behalf of Arizona Public Service Company

Docket No. E-01345A-11-0224

July 28, 2014

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**REJOINDER TESTIMONY OF LELAND R. SNOOK
ON BEHALF OF ARIZONA PUBLIC SERVICE COMPANY
(Docket No. E-01345A-11-0224)**

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND POSITION WITH ARIZONA PUBLIC SERVICE COMPANY (“APS” OR “COMPANY”).

A. My name is Leland R. Snook. My business address is 400 North 5th Street, Phoenix, Arizona, 85004. I am Director of Rates and Rate Strategy for Arizona Public Service Company (“APS” or “Company”). I have management responsibility for all aspects relating to rates and pricing.

Q. DID YOU PREVIOUSLY SUBMIT TESTIMONY IN THIS PROCEEDING?

A. Yes, my Rebuttal Testimony was filed on July 3, 2014.

Q. WHAT IS THE PURPOSE OF YOUR REJOINDER TESTIMONY IN THIS PROCEEDING?

A. I address Staff Witness Dennis Kalbarczyk’s continued insistence that it is appropriate to apply a Fair Value Rate of Return (“FVROR”) calculated using a specific mix of rate base assets (2010 Test Year Rate Base) to a different mix of rate base assets, specifically one that includes both APS’s acquisition of SCE’s share of Four Corners Units 4 and 5 and the 2010 Test Year Rate Base. I then respond to RUCO Witness Robert Mease’s argument justifying his use of an incremental debt return to calculate the revenue requirement for the above acquisition. I also correct some misstatements made by Mr. Mease about the estimated bill impacts of the Four Corner’s Rate Rider presented to the Commission and RUCO at the time of the 2012 Settlement and as presently requested by the Company.

II. SUMMARY

Q. PLEASE SUMMARIZE YOUR REJOINDER TESTIMONY.

1 A. Mr. Kalbarczyk's and Mr. Mease's FVROR recommendations share one thing in
2 common; though both believe that the investment was prudent, neither would
3 permit APS to recover the full costs of owning and operating the additional share
4 of Four Corners Units 4 and 5 acquired from SCE. This stands in stark contrast
5 to the regulatory treatment afforded the Company's already-existing ownership
6 interest in precisely the same Four Corners Units 4-5 by both the 2012 Settlement
7 adopted by the Commission in Decision No. 73183 (May 24, 2012) and in all
8 previous APS rate proceedings since Four Corners 4-5 were included in the
9 Company's rate base in the 1970s.

10
11 Mr. Kalbarczyk does not explain the inconsistency of his recommendation with
12 prior Commission precedent on FVROR. And his analysis of the 6.09% FVROR
13 appearing in the 2012 Settlement demonstrates a fundamental unfamiliarity with
14 the concept of FVROR, as determined by the Commission in this and other
15 dockets.

16 Mr. Mease has abandoned his argument that Decision No. 73130 (April 24, 2012)
17 supports RUCO's position and no longer contends that limiting APS to an
18 incremental debt return is some manner of "risk sharing." Rather RUCO now
19 argues that unlike every other asset in the Company's rate base, we should
20 attempt to directly assign portions of the Company's overall cost of capital to
21 these specific assets, especially that portion that provides for the lowest possible
22 revenue requirement.

23
24 Mr. Mease is also incorrect in his statements about the information APS provided
25 to the Commission regarding the anticipated rate impact of the Four Corners Rate
26 Rider at the time of the 2012 Settlement. As shown on Attachment LRS-3-
27 Rejoinder, the anticipated bill impact was never represented in 2012 to be just \$2
28

1 a month (it was actually \$4.25 a month) for a typical residential customer and
2 has, in fact, decreased by over \$1 a month (from \$4.25 to \$2.92) since that 2012
3 estimate despite the fact that this proceeding will take significantly longer than
4 originally anticipated, thus increasing the deferred costs included in that monthly
5 bill impact.
6

7 **III. STAFF'S FAIR VALUE RATE OF RETURN**

8 **Q. WHY DOES STAFF MAINTAIN THAT A 6.09% RETURN IS**
9 **REASONABLE IN DETERMINING THE REVENUE REQUIREMENT IN**
10 **THIS PROCEEDING?**

11 A. Mr. Kalbarczyk never contended that it was reasonable – merely that it appeared
12 in the 2012 Settlement and, in his opinion, cannot be changed in this proceeding
13 even though we are significantly changing one of the critical inputs to the
14 formula that determines FVROR.

15 **Q. AT PAGE 4 OF HIS SURREBUTTAL, MR. KALBARCZYK TAKES**
16 **ISSUE WITH HOW YOU CHARACTERIZED THE CALCULATION OF**
17 **FVROR IN YOUR REBUTTAL. IS HE CORRECT?**

18 A. He is correct that the formula used by Staff witness Ralph Smith in the
19 underlying rate case that led to the 2012 Settlement used a weighted capital
20 structure to determine FVROR. The Exhibit referenced by Mr. Kalbarczyk is
21 shown as Attachment LRS-1-Rejoinder. As seen in Figure 1, I show the same
22 calculation using the 1% return on the Fair Value Increment (discussed in my
23 Rebuttal Testimony) and the 10% ROE from the 2012 Settlement, as well as the
24 capital ratios from the 2012 Settlement:
25
26
27
28

Figure 1

<i>Adjusted Test Year Capital Structure</i>	Amount	%	Cost Rate	Weighted Average
Long-Term Debt	\$ 3,382,856	46.06%	6.38%	2.94%
Common Equity	3,961,248	53.94%	10.00%	5.39%
TOTAL	\$ 7,344,104	100.00%		8.33%

<i>Capital Structure with Settlement 1.0% Return on FV Increment</i>	Amount	%	Cost Rate	Weighted Average
Long-Term Debt	\$ 2,608,377	31.94%	6.38%	2.04%
Common Equity	3,054,621	37.40%	10.00%	3.74%
FVRB Increment	2,504,128	30.66%	1.00%	0.31%
TOTAL	\$ 8,167,126	100.00%		6.09%

As you can see, one gets to precisely the same number as I calculated starting on page 3 of my Rebuttal Testimony. If I include the rate base addition of the SCE share of Four Corners 4 and 5 (a rate base amount that neither Staff nor RUCO disputes) into the above equation using the exact same beginning amounts of debt, equity and Fair Value Increment as Staff Witness Smith, I get the following FVROR:

Figure 2

<i>Capital Structure with Four Corners Included</i>	Amount	%	Cost Rate	Weighted Average
Long-Term Debt	\$2,712,442	32.32%	6.38%	2.06%
Common Equity	3,176,490	37.85%	10.00%	3.79%
FVRB Increment	2,504,128	29.84%	1.00%	0.30%
Total	\$8,393,060	100.00%		6.14%

This is again the identical result as in my Rebuttal Testimony. So while it is true that one can determine FVROR either by taking revenue requirement and dividing it by FVRB or by treating the Fair Value Increment as a low cost (1% in this case) capital structure component, both lead to the same end result.

Bottom line, rate base, expenses and rate of return are not three wholly independent variables in determining revenue requirement as postulated by Mr. Kalbarczyk at the top of page 4 of his Surrebuttal. Rather, FVROR and rate base

1 are interdependent variables given the existence of the Fair Value Increment and
2 its ratemaking treatment in Arizona. This interdependence would not exist in an
3 Original Cost Rate Base jurisdiction, which Mr. Kalbarczyk may be more
4 familiar with than Arizona.
5

6 **Q. MR. KALBARCZYK STATES THAT APS IS ASKING AN 8.33%
7 RETURN ON THE FAIR VALUE OF THE ADDITIONAL SHARE OF
8 FOUR CORNERS AND NOT 6.14%. IS HE CORRECT?**

9 A. It depends on whether one is looking at the return on the Four Corners increment
10 in isolation or as a component to the whole of APS's rate base, including the
11 additional Four Corners investment. Whether the overall Company FVROR is
12 6.09% without the additional share of Four Corners Units 4 and 5 or 6.14% with
13 them, these numbers are a composite of thousands of individual asset returns that
14 are above or below those overall returns. For older assets with relatively large
15 Fair Value Increments, the return is well below 6%. The newer an asset is (with a
16 correspondingly lesser Fair Value Increment) the closer the return will be to the
17 Weighted Average Cost of Capital of 8.33%. But as noted at page 5 of my
18 Rebuttal, this provides APS not one cent more return on a dollar of its investment
19 in the SCE share of Four Corners than on a dollar of its pre-existing share of Four
20 Corners or, for that matter, its thousands of other investments outside of Four
21 Corners that comprised the Company's rate base in Decision No. 73183.

22 **Q. MR. KALBARCZYK ARGUES I AM TRYING TO DENY THE
23 COMMISSION DISCRETION IN DETERMINING FVROR? DO YOU
24 AGREE?**

25 A. No. The Commission exercises its discretion when it determines, after
26 consideration of the evidence presented, all the inputs to either my formula as
27 shown on page 7 of my Rebuttal Testimony or that referenced by Mr. Kalbarczyk
28 at page 4 of his Surrebuttal Testimony. Thereafter, discretion is replaced by
mathematics.

1 Q. MR. KALBARCZYK FURTHER TESTIFIES AT PAGE 7 OF HIS
2 SURREBUTTAL THAT IF THE COMMISSION AGREES IT SHOULD
3 CALCULATE FVROR FOR THE COMPANY'S ADDITIONAL
4 INVESTMENT IN FOUR CORNERS UNITS 4 AND 5 IN THE SAME
5 MANNER AS IT HAS FOR EVERY OTHER APS ASSET, INCLUDING
6 THE COMPANY'S PRE-EXISTING INVESTMENT IN THE VERY
7 SAME UNITS, THE COMMISSION SHOULD COMPREHENSIVELY
8 RE-EXAMINE FVROR. DO YOU AGREE?

9 A. No. The 2012 Settlement language was very clear that this would not be another
10 rate case and another opportunity to re-litigate ROE, operating expenses, or
11 additional rate base other than Four Corners. While as we have seen here, the
12 addition of this new Four Corners investment necessarily changes FVROR (and
13 other ratemaking items such as property and income taxes), APS has asked to
14 change no other element of Decision No. 73183. All APS has done in this case is
15 to treat the new investment as though it were originally part of the 2010 TY rate
16 case, precisely as the 2012 Settlement intended and urges the Commission to
17 reject Mr. Kalbarczyk's suggestion otherwise.

18 IV. RUCO'S DEBT RETURN ARGUMENT AND BILL IMPACT ANALYSIS

19 Q. DOES RUCO CONTINUE TO CONTEND THAT DECISION NO. 73130
20 REQUIRES THE COMMISSION TO USE AN INCREMENTAL DEBT
21 RETURN TO DETERMINE REVENUE REQUIREMENTS IN THIS
22 PROCEEDING.

23 A. No.

24 Q. IS RUCO STILL ARGUING THAT REDUCING THE RETURN ON THE
25 PORTION OF FOUR CORNERS UNITS 4 AND 5 ACQUIRED FROM
26 SCE TO LESS THAN HALF THAT APPLIED TO THE COMPANY'S
27 PRE-EXISTING SHARE OF THOSE SAME UNITS IS APPROPRIATE
28 AS SOME MANNER OF "RISK SHARING?"

A. It does not appear so. Mr. Mease does not raise that argument in his Surrebuttal
Testimony, and RUCO conceded in response to a Company Data Request that
such a proposal was unprecedented in this or any other jurisdiction. See
Attachment LRS-2-Rejoinder.

1 **Q. WHAT IS THE RATIONALE RUCO USES TO SUPPORT ITS**
2 **POSITION?**

3 A. As best as I can make out, RUCO is attempting to assign one specific debt
4 issuance of the Company's overall capitalization to the newly acquired share of
5 Four Corners Units 4 and 5. Fortuitously for RUCO, it is one of the lowest cost
6 components of APS's capitalization – a debt issuance in early 2014. I doubt that
7 if APS had issued equity in early 2014, Mr. Mease would be recommending a full
8 equity return on the Company's incremental investment in Four Corners.

9 **Q. TO YOUR KNOWLEDGE, HAS THE COMMISSION EVER**
10 **DETERMINED REVENUE REQUIREMENTS USING A SPECIFIC**
11 **SECURITY'S COST AS THE FVROR?**

12 A. No.

13 **Q. RUCO WITNESS MEASE STATES THAT IN THE 2012 SETTLEMENT**
14 **BILL IMPACT ANALYSIS THE FOUR CORNERS RATE RIDER WAS**
15 **FORECAST TO BE ABOUT \$2.00, BUT IS NOW HIGHER DESPITE THE**
16 **LOWER PURCHASE PRICE RESULTING FROM THE YEAR DELAY**
17 **IN CLOSING THE TRANSACTION. HOW DOES APS EXPLAIN THIS?**

18 A. First, the very bill impact analysis cited by RUCO (which is also attached to my
19 testimony as Attachment LRS-3-Rejoinder, page 11 of 12) showed an estimated
20 bill impact of \$4.25 for the average residential customer for the Four Corners
21 Rate Rider, not \$2.00 as alleged by Mr. Mease. Second, that bill impact has
22 decreased from \$4.25 to the now proposed \$2.92 for the average residential
23 customer – consistent with the lower purchase price. Moreover, the original
24 \$4.25 included only six months of cost deferrals rather than the 11 months of
25 deferrals included in the present \$2.92 figure.

26 V. CONCLUSION

27 **Q. DO YOU HAVE ANY CONCLUDING REMARKS?**

28 A. Both Staff's and RUCO's recommendations would result in APS being unable to
recover the cost of owning and operating its newly-acquired share of Four

1 Corners Units 4 and 5. The difference is one of degree, albeit an important
2 degree. Capital costs are every bit as real as labor or materials costs – costs that
3 neither Staff nor RUCO suggest APS not be able to fully recover. I would
4 conclude by again quoting the Commission’s own words from the Arizona Water
5 Company Decision cited in my Rebuttal Testimony: “It is difficult to imagine a
6 situation in which a reasonable return on FVRB would yield less than the cost of
7 capital which comprises that rate base.” In this case, I would suggest that it is
8 more than simply “difficult to imagine,” but outright impossible. Neither Staff
9 nor RUCO has provided any rationale for a different conclusion.

10
11 Mr. Mease’s statements about changes in the bill impact of the Four Corners Rate
12 Rider are simply incorrect. The impact has in fact been significantly lessened
13 with the passage of time even allowing for the additional length of the cost
14 deferral period.

15 **Q. DOES THIS CONCLUDE YOUR REJOINDER TESTIMONY?**

16 **A. Yes.**

Arizona Public Service Company
Capital Structure & Cost Rates

Docket No. E-01345A-11-0224
Schedule D
Page 1 of 1

Test Year Ended December 31, 2010
(Thousands of Dollars)

Line No.	Capital Source	Capitalization		Cost Rate (C)	Weighted Avg. Cost of Capital (D)
		Amount (A)	Percent (B)		
APS - Proposed					
1	Short-Term Debt	\$ -			0.00%
2	Long-Term Debt	\$ 3,382,856	46.06%	6.38%	2.94%
3	Common Stock Equity	\$ 3,961,248	53.94%	11.00%	5.93%
4	Total Capital	<u>\$ 7,344,104</u>	<u>100.00%</u>		<u>8.87%</u>
ACC Staff - Proposed					
5	Short-Term Debt	\$ -			0.00%
6	Long-Term Debt	\$ 3,382,856	46.06%	6.38%	2.94%
7	Common Stock Equity	\$ 3,961,248	53.94%	9.90%	5.34%
8	Total Capital	<u>\$ 7,344,104</u>	<u>100.00%</u>		<u>8.28%</u>
9	Difference				<u>-0.59%</u>
10	Weighted Cost of Debt				<u>2.94%</u>
ACC Staff - Proposed Fair Value Rate of Return - Alternative 1					
11	Short-Term Debt	\$ -	0.00%	0.00%	0.00%
12	Long-Term Debt	\$ 2,608,502	31.94%	6.38%	2.04%
13	Common Stock Equity	\$ 3,054,497	37.40%	9.90%	3.70%
14	Capital financing OCRB	\$ 5,662,998			
15	Appreciation above OCRB not recognized on utility's books	\$ 2,504,128	30.66%	0% [a]	0.00%
16	Total capital supporting FVRB	<u>\$ 8,167,126</u>	<u>100.00%</u>		<u>5.74%</u>
ACC Staff - Proposed Fair Value Rate of Return - Alternative 2					
17	Short-Term Debt	\$ -	0.00%	0.00%	0.00%
18	Long-Term Debt	\$ 2,608,502	31.94%	6.38%	2.04%
19	Common Stock Equity	\$ 3,054,497	37.40%	9.90%	3.70%
20	Capital financing OCRB	\$ 5,662,998			
21	Appreciation above OCRB not recognized on utility's books	\$ 2,504,128	30.66%	1.00% [b]	0.31%
22	Total capital supporting FVRB	<u>\$ 8,167,126</u>	<u>100.00%</u>		<u>6.05%</u>

Notes and Source

Lines 1-4, APS filing D-1.

Line 15, Col.A:

23	Fair Value Rate Base	\$ 8,167,126	Schedule A
24	Original Cost Rate Base	\$ 5,662,998	Schedule A
25	Difference	<u>\$ 2,504,128</u>	

Difference is appreciation of Fair Value over Original Cost that is not recognized on the utility's books.

[a] The appreciation of Fair Value over Original Cost has not been recognized on the utility's books. Such off-book appreciation has not been financed by debt or equity capital recorded on the utility's books. The appreciation over Original Cost book value is therefore recognized for cost of capital purposes at zero cost.

[b] Per Staff witness David Parcell

RESIDENTIAL UTILITY CONSUMER OFFICE
Docket No. E-01345A-11-0224 – Four Corners Rate Rider
Response to APS Data Request No. 1

APS 1.1 Please provide all data responses sent in response to other parties' data requests in this docket from the time of the Four Corners Rate Rider filing (December 30, 2013). This is an ongoing request to be supplemented with the additional data responses.

RESPONSE RUCO has received no Data Requests from other parties to this Docket.

APS 1.2 Please provide all workpapers in their original format for your testimony in the Four Corners Rate Rider proceeding

RESPONSE See Attachment No. 1 to this Document

APS 1.3 Please provide all testimony you have submitted to a court or regulatory agency in the last 5 years pertaining to the economic evaluation for ratemaking purposes of an electric generating facility or any other electric utility property.

RESPONSE See the following PDF files attached:

Docket No. E-01933A-12-0291

- (1) TEP Direct Testimony
- (2) TEP Supplemental Direct
- (3) TEP Rate Design

Docket No. E04204A-12-0504

- (1) UNS Direct Testimony
 - (2) UNS Rate Design
-

APS 1.4 Please provide a citation to and a copy of any prior ACC decision that limit the return on a utility asset as a "risk-sharing" device.

RESPONSE I'm not aware of any decisions that the ACC has included a risk sharing device.



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January 9, 2012

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RE: Arizona Public Service Company 2011 Rate Case Settlement Agreement
E-01345A-11-0224

To whom it may concern:

The Signatories to the Arizona Public Service Company ("APS") Rate Case Settlement Agreement ("Settlement") filed in the above-captioned docket agreed that APS should file this letter to inform the Commission and the public about the customer bill impacts potentially associated with the Settlement, both on the rate effective date and afterwards. As described in greater detail below, several factors associated with the Settlement may impact customer bills, and several factors that are independent of the Settlement may also impact bills:

- First and most immediately, the Settlement results in a modest rate reduction across customer classes, generally around one percent, on the assumed rate effective date (July 1, 2012) and for the remainder of 2012.
- Second, the Settlement will defer resetting the existing Power Supply Adjustor ("PSA") to reflect the new base fuel rates established in the Settlement until early 2013. This will allow customers to continue to receive a credit for the PSA for the rest of this year, and the PSA bill will be reset as it normally is in February 2013.
- Third, the Settlement would allow APS to seek an adjustment rider related to its potential acquisition of Southern California Edison's ("SCE") interest in Four Corners Power Plant Units 4 and 5 and retirement of Units 1-3 (the "proposed Four Corners transaction"), if the Commission authorizes APS to pursue the acquisition and if the transaction closes. The "Four Corners" adjustment is itself composed of two parts, each dependent upon several contingencies. The first part is the impact of the Four Corners transaction on the 2013 PSA reset should the transaction close prior to December 31, 2012. The second part, which is subject to yet further contingencies, would largely center on the non-fuel costs associated with the Four Corners transaction and would take effect no earlier than July 1, 2013.

The potential customer bill impact associated with each of these changes is explained below and illustrated in detail in the attachment.

1. Bill Impact on the Rate Effective Date.

If the Commission approves the Settlement so that rates take effect on July 1, 2012 as requested, APS customers will see on average a slight bill *decrease* during the remainder of 2012. The average residential customer's monthly bill, for example, will go down by about 1.0%. This customer benefit is caused by (1) APS receiving less rate relief than it had originally requested; (2) a decline in fuel costs; and (3) the Company's agreement to delay the reset of the PSA rate until February 2013, thus continuing the current PSA credit as described below.

2. Bill Impact Resulting from Existing Adjustment Mechanisms.

Of the existing Commission-approved adjustors that affect customer bills between rate cases, only the PSA has a bill impact that is directly affected by the Settlement. There are two components to the PSA: a forward component that will reflect anticipated 2013 fuel costs and a historical component that will collect any under-collected 2012 fuel costs (or refund any over-collection). Although both the forward and historical components may be affected by changes in fuel costs, weather or economic conditions between now and February 2013, APS estimates that average residential customer bills will increase by 2.5% above what they had been just before Settlement rates took effect when the PSA rate is reset in February of 2013.¹ Importantly, although the PSA Plan of Administration would allow the PSA rate to be reset at the same time when new rates take effect, an annual reset occurs each February regardless of whether a rate case has been filed.

3. Bill Impact Resulting from Potential Four Corners Acquisition.

Finally, the Settlement contains a provision that would allow APS to seek an adjustment rider related to its proposed Four Corners transaction, if the Commission authorizes APS to pursue the transaction and if the transaction closes. Under the terms of the Settlement, such a rider, if implemented, may not become effective any earlier than July 1, 2013. Any bill impact associated with this adjustment is contingent on subsequent Commission actions and other future events that may or may not occur. The bill impact reflecting the Four Corners rider presented in the attached assumes, for example, that the Commission and other regulators (including the California Public Utilities Commission and the Federal Energy Regulatory Commission) allow the transaction to proceed, that all other conditions to closing are satisfied, and that the transaction is consummated in the fourth quarter of 2012. It further assumes that the Commission will grant the Company's request that it be allowed to operate Four Corners Units 1-3 through 2013 and recover the associated Operations and Maintenance expense through the PSA only and for so long as off-system sales from that additional capacity benefit customers more than the continued cost of operating those Units. None of these issues is specifically resolved in this Agreement.

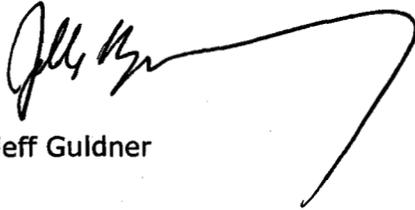
Completing the Four Corners transaction as described above could result in average residential customer bills increasing by slightly more than 3% after July 2013. Importantly, however, the rate treatment of Four Corners was not part of the bill impact analysis related to the Company's original rate case application. The

¹ Again, this analysis assumes that the Commission authorizes APS to pursue the proposed Four Corners transaction, the transaction closes prior to December 31, 2012, and also that Four Corners Units 1-3 continue to operate through the balance of 2013, which results in lower PSA costs.

opportunity for APS to pursue the Four Corners transaction resulted from a combination of California environmental regulations that prompted SCE to withdraw as a participant in the Four Corners plant and from federal environmental regulations that would require significant costs for APS to continue to operate its own Four Corners units. In the separate Four Corners docket, APS has shown that the Four Corners transaction is a far less expensive option for customers over the long term than any other alternative. The Settlement proposal would facilitate the timely closing of the transaction. It would also lower the balance of the cost deferral that APS has requested in the Four Corners docket, which would be significantly higher were it carried over to the Company's next rate case, causing a higher customer bill impact.

I hope this letter provides additional information regarding the potential customer bill impacts associated with this Settlement, and look forward to discussing this in more detail at the hearing. If you have any questions, or would like additional clarification or information, please let me know by way of a letter in this rate case docket, to which APS will promptly respond.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff Guldner", with a long, sweeping horizontal line extending to the right.

Jeff Guldner

JBG/dk

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ARIZONA PUBLIC SERVICE COMPANY
Estimated Annual Bill Impacts of Proposed and Settlement Rates
Includes PSA and RES Impacts

	Application	Rates on 6/30/2012	Settlement 7/1/2012
	Annual Average Monthly Bill (1,2)	Annual Average Monthly Bill (2)	Annual Average Monthly Bill (3)
Residential (Rate E-12)			
Average kWh per Month	691	691	691
Base Rates	\$ 89.31	\$ 86.40	\$ 86.44
PSA- Forward Component	(0.01)	(3.19)	(3.19)
PSA - Historical Component	(0.32)	0.30	0.30
4 Corners	-	-	-
TCA	1.48	2.91	2.91
EIS	-	0.11	-
RES	1.99	3.84	2.78
DSMAC	1.88	1.88	1.88
Total	\$ 94.33	\$ 92.25	\$ 91.12
Bill Impact	\$ 4.33	\$	\$ (1.13)
Percent Bill Impact	4.81%		-1.22%

	Annual Average Monthly Bill (1,2)	Annual Average Monthly Bill (2)	Annual Average Monthly Bill (3)
	Residential (Average - All Rates)		
Average kWh per Month	1,100	1,100	1,100
Base Rates	\$ 128.80	\$ 123.90	\$ 123.83
PSA- Forward Component	(0.02)	(5.08)	(5.08)
PSA - Historical Component	(0.51)	0.49	0.49
4 Corners	-	-	-
TCA	2.36	4.63	4.63
EIS	-	0.18	-
RES	1.99	3.84	2.78
DSMAC	2.99	2.99	2.99
Total	\$ 135.61	\$ 130.95	\$ 129.64
Bill Impact	\$ 8.36	\$	\$ (1.31)
Percent Bill Impact	6.57%		-1.00%

	Annual Average Monthly Bill (1,2)	Annual Average Monthly Bill (2)	Annual Average Monthly Bill (3)
	Commercial (Rate E-32, 0-20 kW)		
Average kWh per Month	1,430	1,430	1,430
Base Rates	\$ 206.85	\$ 202.30	\$ 206.23
PSA- Forward Component	(0.02)	(6.60)	(6.60)
PSA - Historical Component	(0.66)	0.63	0.63
4 Corners	-	-	-
TCA	2.29	3.53	3.53
EIS	-	0.23	-
RES	7.12	13.71	9.96
DSMAC	3.89	3.89	3.89
Total	\$ 219.47	\$ 217.69	\$ 217.64
Bill Impact	\$ 4.37	\$	\$ (0.05)
Percent Bill Impact	2.03%		-0.02%

ARIZONA PUBLIC SERVICE COMPANY
Estimated Annual Bill Impacts of Proposed and Settlement Rates
Includes PSA and RES Impacts

	Application	Rates on	Settlement
	Annual Average Monthly Bill (1,2)	6/30/2012 Annual Average Monthly Bill (2)	7/1/2012 Annual Average Monthly Bill (3)
Commercial (Rate E-32, > 20 kW)			
Average kWh per Month	62,238	62,238	62,238
Base Rates	\$ 6,142.98	\$ 5,977.26	\$ 5,986.64
PSA- Forward Component	(0.88)	(287.36)	(287.36)
PSA - Historical Component	(28.69)	27.33	27.33
4 Corners	-	-	-
TCA	144.81	163.78	163.78
EIS	-	9.96	-
RES	73.92	142.44	103.44
DSMAC	189.52	189.52	189.52
Total	\$ 6,521.66	\$ 6,222.93	\$ 6,183.35
Bill Impact	\$ 401.72		\$ (39.58)
Percent Bill Impact	6.56%		-0.64%

	Annual Average Monthly Bill (1,2)	Annual Average Monthly Bill (2)	Annual Average Monthly Bill (3)
	Industrial (Rate E34/35)		
Average kWh per Month	3,581,412	3,581,412	3,581,412
Base Rates	\$ 257,184.98	\$ 249,125.86	\$ 244,035.16
PSA- Forward Component	(50.14)	(16,535.38)	(16,535.38)
PSA - Historical Component	(1,651.03)	1,572.24	1,572.24
4 Corners	-	-	-
TCA	1,710.44	4,061.46	4,061.46
EIS	-	573.03	-
RES	221.77	427.33	310.33
DSMAC	6,395.98	6,395.98	6,395.98
Total	\$ 263,812.00	\$ 245,620.52	\$ 239,839.79
Bill Impact	\$ 25,818.72		\$ (5,780.73)
Percent Bill Impact	10.85%		-2.35%

Notes:

- (1) From CAM-14 in Application
- (2) Bill includes impact of proposed revised General Rate Case charges, and PSA and RES surcharges reset with implementation of new rates
Bill excludes regulatory assessment charge, taxes and fees. Adjustor levels in effect as of March 1, 2011
- (3) 7/1/2012 - Includes settlement rates, transfer from RES to base rates, and EIS set to zero. PSA based on 2/1/2012 rate

ARIZONA PUBLIC SERVICE COMPANY
Estimated Annual Bill Impacts of Proposed and Settlement Rates
Includes PSA and RES Impacts

NOTE: PSA RESET OCCURS EACH FEBRUARY REGARDLESS OF WHETHER A RATE CASE HAS BEEN FILED

	Rates on 7/1/2012	Potential Impact of PSA Reset in 2013
	Annual Average Monthly Bill (4,5)	Annual Average Monthly Bill (4,6)
Residential (Rate E-12)		
Average kWh per Month	691	691
Base Rates	\$ 86.44	\$ 86.44
PSA- Forward Component	(3.19)	(2.12)
PSA - Historical Component	0.30	2.10
4 Corners	-	-
TCA	2.91	2.91
EIS	-	-
RES	2.78	2.78
DSMAC	1.88	1.88
Total	\$ 91.12	\$ 93.99
Bill Impact		\$ 2.87
Percent Bill Impact		3.15%

Equates to a 1.9% bill impact compared to 6/30/2012 rates

	Annual Average Monthly Bill (4,5)	Annual Average Monthly Bill (4,6)
Residential (Average - All Rates)		
Average kWh per Month	1,100	1,100
Base Rates	\$ 123.83	\$ 123.83
PSA- Forward Component	(5.08)	(3.37)
PSA - Historical Component	0.49	3.34
4 Corners	-	-
TCA	4.63	4.63
EIS	-	-
RES	2.78	2.78
DSMAC	2.99	2.99
Total	\$ 129.64	\$ 134.20
Bill Impact		\$ 4.56
Percent Bill Impact		3.52%

Equates to a 2.5% bill impact compared to 6/30/2012 rates

	Annual Average Monthly Bill (4,5)	Annual Average Monthly Bill (4,6)
Commercial (Rate E-32, 0-20 kW)		
Average kWh per Month	1,430	1,430
Base Rates	\$ 206.23	\$ 206.23
PSA- Forward Component	(6.60)	(4.38)
PSA - Historical Component	0.63	4.34
4 Corners	-	-
TCA	3.53	3.53
EIS	-	-
RES	9.96	9.96
DSMAC	3.89	3.89
Total	\$ 217.64	\$ 223.57
Bill Impact		\$ 5.93
Percent Bill Impact		2.72%

ARIZONA PUBLIC SERVICE COMPANY
Estimated Annual Bill Impacts of Proposed and Settlement Rates
Includes PSA and RES Impacts

NOTE: PSA RESET OCCURS EACH FEBRUARY REGARDLESS OF WHETHER A RATE CASE HAS BEEN FILED

	Rates on 7/1/2012	Potential Impact of PSA Reset in 2013
	Annual Average Monthly Bill (4,5)	Annual Average Monthly Bill (4,6)
Commercial (Rate E-32, > 20 kW)		
Average kWh per Month	62,238	62,238
Base Rates	\$ 5,986.64	\$ 5,986.64
PSA- Forward Component	(287.36)	(190.39)
PSA - Historical Component	27.33	188.77
4 Corners	-	-
TCA	163.78	163.78
EIS	-	-
RES	103.44	103.44
DSMAC	189.52	189.52
Total	\$ 6,183.35	\$ 6,441.76
Bill Impact		\$ 258.41
Percent Bill Impact		4.18%

	Annual Average Monthly Bill (4,5)	Annual Average Monthly Bill (4,6)
Industrial (Rate E34/35)		
Average kWh per Month	3,581,412	3,581,412
Base Rates	\$ 244,035.16	\$ 244,035.16
PSA- Forward Component	(16,535.38)	(10,955.54)
PSA - Historical Component	1,572.24	10,862.43
4 Corners	-	-
TCA	4,061.46	4,061.46
EIS	-	-
RES	310.33	310.33
DSMAC	6,395.98	6,395.98
Total	\$ 239,839.79	\$ 254,709.82
Bill Impact		\$ 14,870.03
Percent Bill Impact		6.20%

Notes:

- (4) Bill excludes regulatory assessment charge, taxes and fees
- (5) 7/1/2012 - includes settlement rates, transfer from RES to base rates, and EIS set to zero. PSA based on 2/1/2012 rate
- (6) 2/1/2013 - APS would have reset the PSA adjutor regardless of the current rate case. Projected PSA reset, under-collection in 2012 due to base fuel rate change in 7/1/12, FC 1-3 Off-system sales margin, and FC 4-5 base fuel rate change due to acquisition

ARIZONA PUBLIC SERVICE COMPANY
Estimated Annual Bill Impacts of Proposed and Settlement Rates
Includes PSA and RES Impacts

	Bill Impact of PSA Reset in 2013	Potential Impact of ACC Approval of FC
	Annual Average Monthly Bill (7,8)	Annual Average Monthly Bill (7,9)
Residential (Rate E-12)		
Average kWh per Month	691	691
Base Rates	\$ 86.44	\$ 86.44
PSA- Forward Component	(2.12)	(1.31)
PSA - Historical Component	2.10	2.10
4 Corners	-	2.08
TCA	2.91	2.91
EIS	-	-
RES	2.78	2.78
DSMAC	1.88	1.88
Total	\$ 93.99	\$ 96.88
Bill Impact		\$ 2.89
Percent Bill Impact		3.07%

	Annual Average Monthly Bill (7,8)	Annual Average Monthly Bill (7,9)
Residential (Average - All Rates)		
Average kWh per Month	1,100	1,100
Base Rates	\$ 123.83	\$ 123.83
PSA- Forward Component	(3.37)	(2.09)
PSA - Historical Component	3.34	3.34
4 Corners	-	2.97
TCA	4.63	4.63
EIS	-	-
RES	2.78	2.78
DSMAC	2.99	2.99
Total	\$ 134.20	\$ 138.45
Bill Impact		\$ 4.25
Percent Bill Impact		3.17%

	Annual Average Monthly Bill (7,8)	Annual Average Monthly Bill (7,9)
Commercial (Rate E-32, 0-20 kW)		
Average kWh per Month	1,430	1,430
Base Rates	\$ 206.23	\$ 206.23
PSA- Forward Component	(4.38)	(2.71)
PSA - Historical Component	4.34	4.34
4 Corners	-	4.95
TCA	3.53	3.53
EIS	-	-
RES	9.96	9.96
DSMAC	3.89	3.89
Total	\$ 223.57	\$ 230.19
Bill Impact		\$ 6.62
Percent Bill Impact		2.96%

ARIZONA PUBLIC SERVICE COMPANY
Estimated Annual Bill Impacts of Proposed and Settlement Rates
Includes PSA and RES Impacts

	Bill Impact of PSA Reset in 2013 Annual Average Monthly Bill (7,8)	Potential Impact of ACC Approval of FC Annual Average Monthly Bill (7,9)
Commercial (Rate E-32, > 20 kW)		
Average kWh per Month	62,238	62,238
Base Rates	\$ 5,986.64	\$ 5,986.64
PSA- Forward Component	(190.39)	(117.94)
PSA - Historical Component	188.77	188.77
4 Corners	-	143.68
TCA	163.78	163.78
EIS	-	-
RES	103.44	103.44
DSMAC	189.52	189.52
Total	\$ 6,441.76	\$ 6,657.89
Bill Impact		\$ 216.13
Percent Bill Impact		3.36%

	Annual Average Monthly Bill (7,8)	Annual Average Monthly Bill (7,9)
Industrial (Rate E34/35)		
Average kWh per Month	3,581,412	3,581,412
Base Rates	\$ 244,035.16	\$ 244,035.16
PSA- Forward Component	(10,955.54)	(6,786.78)
PSA - Historical Component	10,862.43	10,862.43
4 Corners	-	5,856.85
TCA	4,061.46	4,061.46
EIS	-	-
RES	310.33	310.33
DSMAC	6,395.98	6,395.98
Total	\$ 254,709.82	\$ 264,735.43
Bill Impact		\$ 10,025.61
Percent Bill Impact		3.94%

Notes:

- (7) Bill excludes regulatory assessment charge, taxes and fees. Adjustor levels in effect as of March 1, 2011
- (8) 2/1/2013 - APS would have reset the PSA adjustor regardless of the current rate case. Projected PSA reset, under-collection in 2012 due to base fuel rate change in 7/1/12, FC 1-3 Off-system sales margin, and FC 4-5 base fuel rate change due to acquisition
- (9) 7/1/2013 - FC 1-3 O&M base fuel rate transfer to PSA, and FC 4-5 non-fuel rate increase

James C. Wilde

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REJOINDER TESTIMONY OF JAMES C. WILDE

On Behalf of Arizona Public Service Company

Docket No. E-01345A-11-0224

July 28, 2014

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1 III. SIERRA CLUB'S CRITICISMS REGARDING APS'S GAS FORECAST ARE
2 UNFOUNDED

3 Q. **HAS APS PROVIDED IN THESE PROCEEDINGS THE BASIS FOR THE**
4 **NATURAL GAS PRICES AND FORECASTS USED BY APS TO**
5 **CONDUCT ITS ANALYSIS OF THE NET PRESENT VALUE OF THIS**
6 **TRANSACTION?**

7 A. Yes.

8 Q. **WHERE IS THAT INFORMATION PROVIDED?**

9 A. Page two of my Rebuttal Testimony discusses both the data and methodology
10 used to develop the gas forecasts relied upon in these proceedings as well as
11 APS's 2014 Integrated Resource Plan ("IRP"). All data used to evaluate this
12 transaction has been provided. As explained, APS's gas forecasts are based on
13 NYMEX data adjusted for basis location (i.e. Jan Juan and Permian basins) and
14 delivery charges. See APS's Response to Sierra Club's Data Request 4.1 and
15 1.22.

16 Q. **SIERRA CLUB QUESTIONS THE NYMEX GAS PRICES PROVIDED BY**
17 **APS BECAUSE THE PAGE STATES THAT THE SOURCE OF THE**
18 **DATA IS "DATAMART." WHAT IS "DATAMART"?**

19 A. DataMart is a proprietary database used by APS to compile natural gas market
20 price curves. APS imports actual NYMEX forward natural gas fixed prices, as
21 well as forward natural gas basis market prices, into DataMart from an electronic
22 data feed, then APS adjusts those prices for the delivery cost to APS power
23 plants.

24 IV. SIERRA CLUB'S CRITICISMS REGARDING APS'S CARBON PRICES ARE
25 UNFOUNDED

26 Q. **HAS APS PROVIDED IN THESE PROCEEDINGS THE BASIS FOR THE**
27 **CARBON EMISSIONS PRICES AND FORECASTS USED BY APS TO**
28 **CONDUCT ITS ANALYSIS OF THE NET PRESENT VALUE OF THIS**
TRANSACTION?

A. Yes.

1 **Q. WHERE IS THAT INFORMATION PROVIDED?**

2 A. On pages three and four of my Rebuttal Testimony I explain the carbon prices
3 used by APS in its 2012 and 2014 IRPs, as well as the prices used in the original
4 and current Four Corners proceedings. I also explain why those prices have
5 varied over time. In addition, APS's Response to Sierra Club's Data Request 2.1
6 contains the actual emissions prices used and APS's Response to Sierra Club's
7 Data Request 4.2 explains the source and precisely how APS calculated those
8 prices.

9
10 **Q. PLEASE AGAIN SUMMARIZE HOW APS CALCULATED THE CO₂ EMISSIONS COSTS USED IN THIS PROCEEDING.**

11 A. APS used the actual trading price of CO₂ allowances in the California market as
12 of September 24, 2013, escalated at 2.5% per year. APS's projected CO₂
13 emissions cost basis of \$11.60/metric ton is consistent with the median price for
14 California Air Resources Board Quarterly Auctions for 2016 Vintage Carbon
15 Allowances. The Vintage Carbon Allowances median price varied from
16 \$11.10/metric ton to \$11.86/metric ton.

17 **Q. DR. HAUSMAN SUGGESTS ON PAGE 9 OF HIS SURREBUTTAL
18 TESTIMONY THAT THE COMPANY SHOULD CONDUCT ANALYSIS
19 USING CHARLES RIVER ASSOCIATES' HIGHER CARBON
20 EMISSIONS PRICES. HAS THE COMPANY CONDUCTED SUCH
21 ANALYSIS?**

22 A. Yes. In its 2014 IRP, APS used Charles River Associates ("CRA") 2011 carbon
23 prices for its "High CO₂ Emission Cost Sensitivity." Those prices were produced
24 in response to Sierra Club's Data Request 2.1.c at APS15330. Please note that
25 the California carbon market prices I reference do not support the use of these
26 higher carbon prices for the reasons explained in my Rebuttal Testimony. In
27 addition, as I explained in my Rebuttal Testimony, APS used CRA carbon pricing
28 in its 2012 IRP, which was the intent for engaging CRA in the first place. As I
stated in my Rebuttal Testimony, the 2012 IRP showed a substantial customer

1 benefit for proceeding with the purchase of SCE's share of Four Corners Units 4
2 and 5, even with using CRA's carbon pricing.
3

4 **Q. WOULD THIS TRANSACTION STILL BENEFIT APS CUSTOMERS
5 EVEN IF WE WERE TO ASSUME, FOR THE SAKE OF ARGUMENT,
6 USE OF THE CRA CARBON EMISSIONS PRICES CONTAINED IN THE
7 2011 CRA STUDY?**

8 A. Yes. In the "High CO₂ Emission Cost Sensitivity" mentioned above and reflected
9 in APS15330, the transaction would still have an approximate \$50M NPV benefit
10 for APS customers.
11

12 **Q. IN YOUR REBUTTAL TESTIMONY, YOU DISCUSS BRIEFLY THE
13 POTENTIAL IMPACT OF THE PROPOSED CLEAN POWER PLAN
14 REGULATION ON THE CARBON MARKET. CAN YOU PLEASE
15 EXPAND ON THAT TESTIMONY?**

16 A. Yes. On June 2, 2014, the Environmental Protection Agency ("EPA") released a
17 proposed rule, referred to as the "Clean Power Plan" ("CPP") for states to
18 regulate greenhouse gas emissions from existing fossil fuel-fired electric
19 generating units ("EGUs") under Section 111(d) of the Clean Air Act. The
20 proposed rule establishes state-specific emission rates for all affected EGUs in
21 each state rather than nationally uniform emission rates. The CPP does not
22 propose a carbon market, but instead proposes to allow states the option of using
23 a variety of methods to improve carbon emissions intensity, including the
24 addition of renewables and energy efficiency. At this time, it's unclear what role
25 a carbon market would play, if any, with individual state utility plans, given the
26 flexibility provided in the proposed standard.
27

28 **V. CONCLUSION**

Q. DO YOU HAVE ANY CONCLUDING REMARKS?

A. The criticisms lodged by Sierra Club Witness Dr. Hausman in his Surrebuttal
Testimony are unsupported by the record in this matter. APS has been forthright
and transparent regarding the natural gas and carbon prices used in its analysis.

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APS has provided the data and methodologies employed and substantiated its conclusion that the Four Corners transaction is prudent and in the best interest of APS's customers.

Q. DOES THIS CONCLUDE YOUR REJOINDER TESTIMONY?

A. Yes.